NOT RATED
CMP : INR129

Prateek Kumar
+91 22 4031 3440
prateek.kumar@antiquelimited.com

Nishant Shah
+91 22 4031 3473
nishant.shah@antiquelimited.com

Market data

Sensex	:	35,739
Sector	:	Cement
Market Cap (INRbn)	:	54.0
Market Cap (USDbn)	:	0.800
O/S Shares (m)	:	419.2
52-wk HI/LO (INR)	:	152/102
Avg Daily Vol ('000)	:	177
Bloomberg	:	STRCEM IN

Source: Bloomberg

Valuation

	FY16	FY17	FY18
EPS (INR)	3.2	4.6	7.9
P/E	40.3	27.8	16.4
P/BV	5.1	4.7	3.7
EV/EBITDA	15.8	15.2	11.2
Dividend Yield (%)	0.4	0.0	0.8

Source: Bloomberg

Returns (%)

	1m	3m	6m	12m
Absolute	2	9	7	-
Relative	2	3	(1)	-

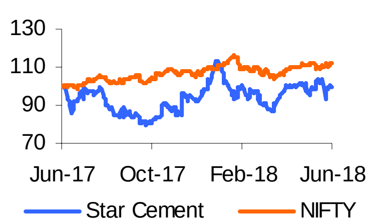
Source: Bloomberg

Shareholding pattern

Promoters	:	69%
Public	:	31%
Others	:	0%

Source: Bloomberg

Price performance *vs* Nifty



Source: Bloomberg Indexed to 100

MANAGEMENT MEET UPDATE

Star Cement Limited

Star from North East

We recently met the management of Star Cement, one of the largest cement manufacturer and market leader in India's Northeast market. As per the discussion, management 1) expects to outgrow market in FY19 with 15% YoY volume growth; 2) remains confident on maintaining profitability with stable pricing environment; 3) expects another INR1.5-2bn government subsidy receipt in remaining FY19; 4) Looking to expand both clinker and grinding capacities. Company boasts of consistently delivering more than 2x EBITDA/tonne vis-à-vis the Industry average and will be one of the prime beneficiaries of healthy regional dynamics in North Eastern market.

Expects to outgrow market in FY19

In North East, Star is a leader in terms of both capacity and market share, with plants in Meghalaya and Assam. Company has created a strong brand and sustainable moat by having plants located strategically close to market hubs, sufficient limestone reserves, captive power plants (51MW), a extensive dealership network. Management expects the region to grow 8-9% in FY19, and company to deliver a growth of 15% YoY. Star's volume growth during FY18 was negatively impacted (a decline of 12% YoY in Cement volumes) owing to company's freight rationalization initiatives.

Cement prices expected to remain stable in the region

Cement prices in the North East region have remained fairly stable at ~INR390-400/bag (in retail segment) over past few months. The selling price in North East is highest across India. Management doesn't foresee (neither is keen for) any major price increases in near term, while the focus is more on sustaining the current prices. Management opines that at current level of Cement prices are healthy for Industry and it's important for Industry participants to sustain prices than having any major increases.

Expects another INR1.5-2bn subsidy in remaining FY19

Freight related subsidy (INR300/T) for the Company got over in January-18, while GST subsidy (~INR250-300/T) is available on the 2 plants till FY23 and FY27. Of the total receivables under freight subsidy, in Q1FY19, Company received a total of INR2.8bn from Central govt, which is used for repayment of loan. Nearly ~INR4bn of subsidy is pending now from the government of which management expects to receive INR1.5-2bn in remaining FY19. With the conclusion of freight subsidy in January-18, Company has been trying to reposition its brand in some of the Eastern and North Eastern markets, looking to go deeper in some of existing areas (like West Bengal), while withdrawing in others (like Jharkhand). Such Freight rationalization also impacted the FY18 volumes. While the freight subsidy equivalent to INR300/T ended in Jan-18, management doesn't foresee an equivalent impact on profitability owing to freight rationalisation.

Looking to expand both clinker and grinding capacities

With the healthy growth outlook in the region, management is considering the next leg of capacity expansion, with plans to set up a GU in Siliguri (West Bengal) with a capacity of 2MTPA. Earlier, company had 0.7MTPA of hired GUs in WB, part of which would be closed post new expansion. Company is also expanding its clinker capacity by 0.4MTPA (Current clinker capacity: 2.6MTPA) via debottlenecking. Over next 2 years, Company is looking to spend INR4bn towards project capex including INR2bn in FY19. Company is also envisaging a bigger expansion project with capex of INR8bn towards addition of 2MTPA clinkisation plant over the next 3-4 year period. Company has abundant limestone reserves amounting to nearly 700mnT and can potentially increase production capacity by four times for plants running for 50 years.

Demand Supply dynamics of the North East market

Market is concentrated at the top

North East region is a relatively attractive market with low competition and high growth opportunities for the industry participants. North East market grew by 8.5% in FY18 (7-8% in FY17) and management expects it to grow 8-9% in FY19 as well. Among the seven states of North East, Markets of Mizoram, Nagaland, Manipur are witnessing limited growth, while Assam, Meghalaya and Tripura are higher growth markets. Near 60% of North East region's consumption demand comes from Assam. Large part of growth in Assam and Meghalaya is led by retail demand, while growth in Arunachal has higher contribution from Institutional growth. North Eastern market has ~13MTPA grinding capacity and 7.5-8MT clinker capacity.

- Total demand size of North East region (in FY18) stands at ~8-8.5mT, which is expected to touch ~9mnT in FY19.
- North East is a difficult market to service to for mainland players owing to logistics constraints and non-availability of clinker units. Over the last few years, cement arrivals in North East from mainland players has come down to 10% from 30% owing to strong location advantage for the existing players in North East market.
- In terms of grinding capacity, the market is concentrated at the top with Star and Dalmia constituting nearly ~55% of the total ~13MTPA grinding capacity of the region.
- In terms of Clinker capacity, Star and Dalmia constitute 60% of the total ~7.5-8MTPA capacity.

Key installed capacities in North East region

(MTPA)	Cement	Clinker
Star	3.7	2.6
Dalmia	3.6	2.3
TopCem	1.2	0.8
Goldstone	1.0	0.7
Amrit	1.0	0.5
GreenValley	0.6	0.4
Rest	2.0	0.6
Total	**13.1**	**7.9**

Source: Company, Antique

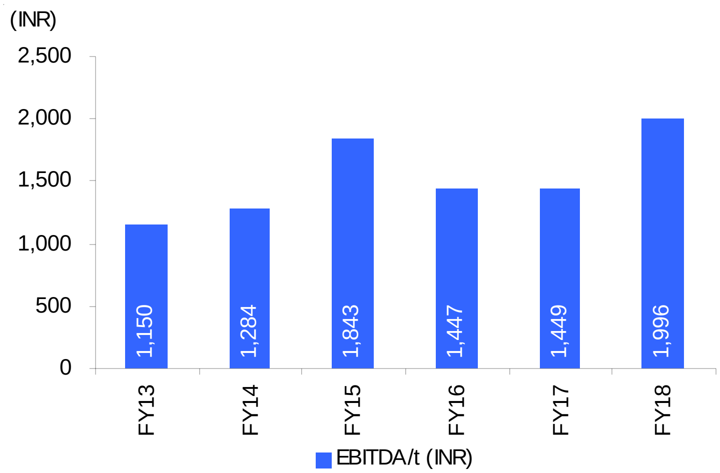
Bigger hurdles of putting new plant than other regions

Cement is the one of the largest industry in the North-East (NE) region. While the region is rich in limestone, putting up capacity is even more difficult in North East than the other markets. The main hindrances include Time for the project implementation, clearance in relation to Land and mines and Additional hindrances in relation to sixth schedule of Constitution. The States of Assam, Tripura, Meghalaya, and Mizoram are autonomous regions under the Sixth Schedule of the Constitution; Sixth Schedule gives tribal communities considerable autonomy. Land is under the name of locals and local people have right of Land and as well as the limestone.

Key strengths of the company

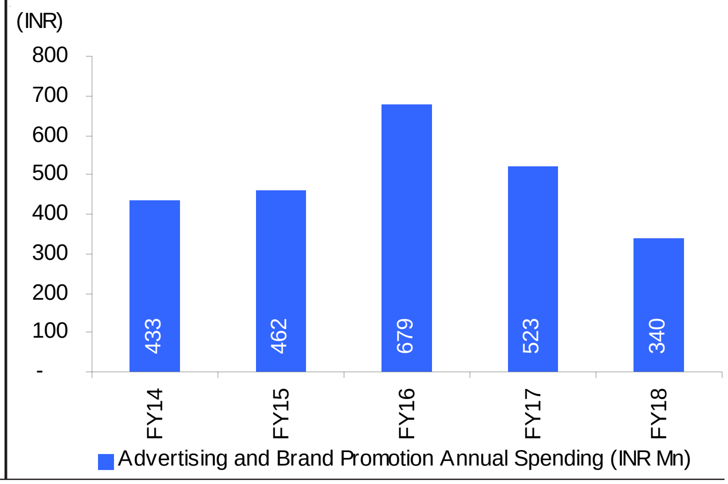
- Access to premium quality limestone within 2-3Km from the plant
- Fly ash generated from power plant is used in cement plants at almost nil cost
- 51MW Captive power ensures non-dependency on grid power
- Very high focus on marketing and branding; Aggregate brand investment of INR2.8bn in last decade

Industry Leading EBITDA/T



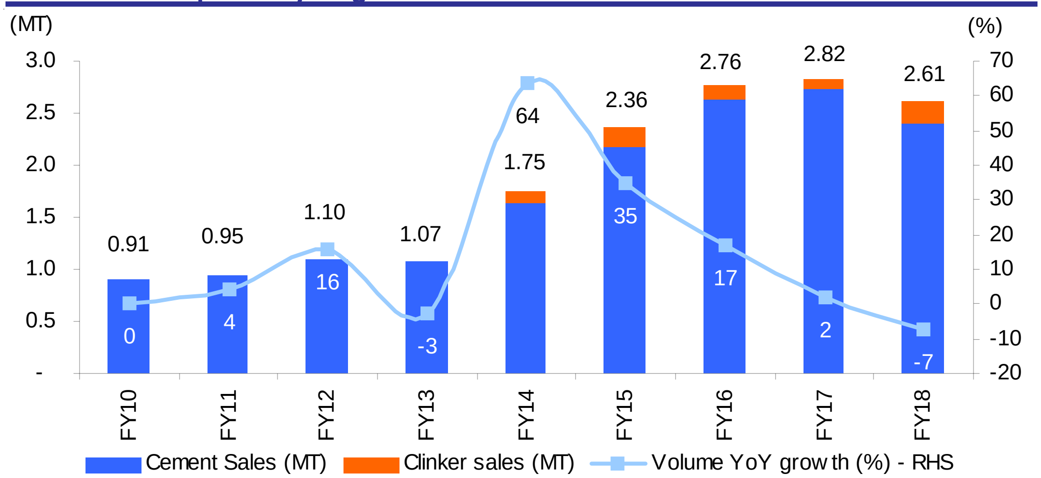
Source: Company, Antique

High spending over Ads & Promotion in past few years



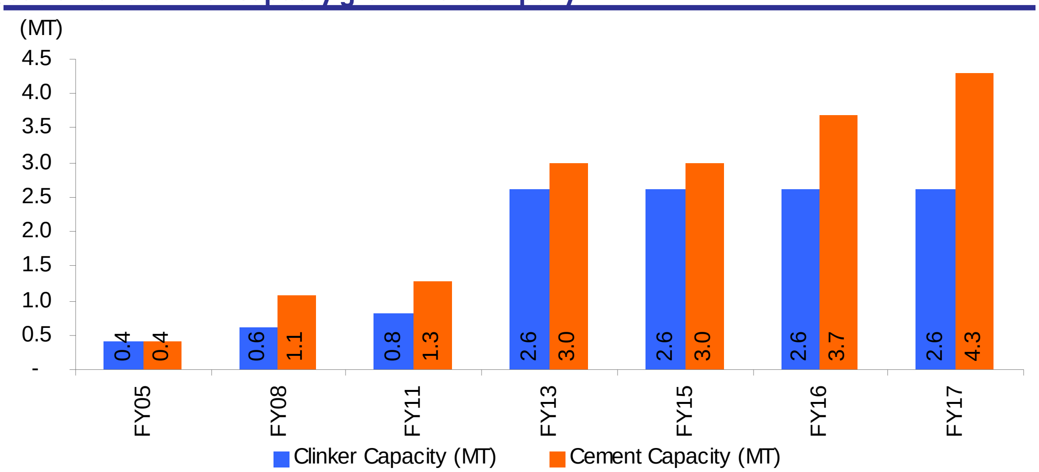
Source: Company, Antique

FY18 volumes impacted by freight rationalization initiatives



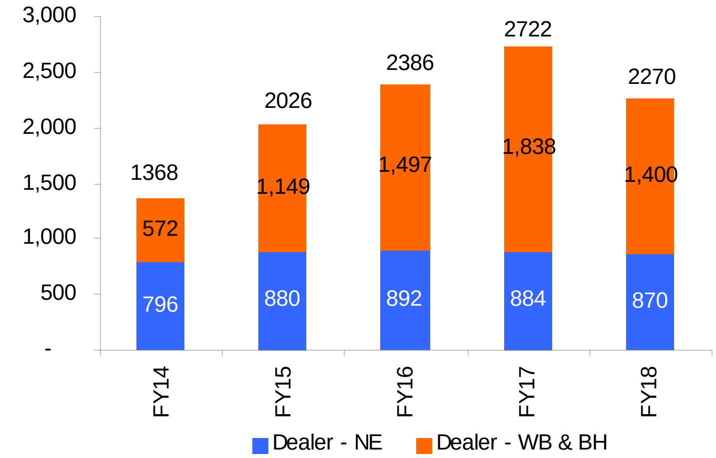
Source: Company, Antique

Cement and Clinker Capacity growth for Company



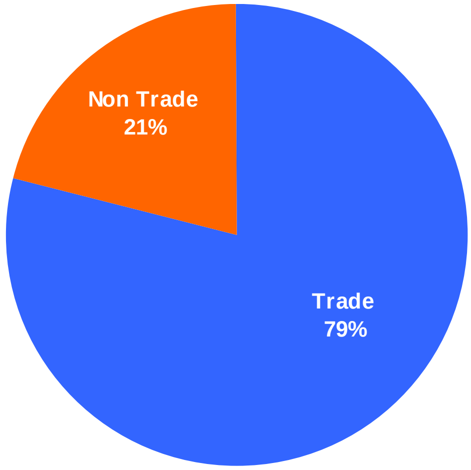
Source: Company, Antique

Robust dealer network growth



Source: Company, Antique

High proportion of trade sales



Source: Company, Antique

The Star Brand

Source: Company, Antique

Incentives available to Company

	Exemption	Balance Exemption		
		SCML	SCl-GGU	SCL-LMS
Income tax	100% under Section 80 IE subject to MAT	5 years	5 years	-
IGST/CGST on				
Clinker	29%/58%	5 years	-	9 years
cement	29%/58%	-	5 years	9 years
SGST	100%	2 years ~	INR700m	-

Source: Company, Antique

Financials

Profit and loss account (INRm)

Year ended 31 Mar	2014	2015	2016	2017	2018
Net Revenue	**11,734**	**14,304**	**17,150**	**15,278**	**16,145**
Op. Expenses	9,184	9,954	13,156	11,195	10,932
EBITDA	**2,550**	**4,351**	**3,994**	**4,083**	**5,214**
Depreciation	1,616	2,237	1,715	1,179	1,207
EBIT	**933**	**2,113**	**2,279**	**2,904**	**4,007**
Other income	25	8	13	24	44
Interest Exp.	872	874	834	781	525
Extra Ordinary Items -gain/(loss)	10	(0)	5	-	-
Reported PBT	**86**	**1,247**	**1,458**	**2,148**	**3,526**
Tax	27	48	60	139	164
Reported PAT	**49**	**1,199**	**1,393**	**2,009**	**3,362**
Minority Int./Profit (loss) From Asso.	(12)	365	53	62	55
Net Profit	**61**	**834**	**1,340**	**1,947**	**3,307**
Adjusted PAT	**61**	**834**	**1,340**	**1,947**	**3,307**
Adjusted EPS (INR)	**0.1**	**2.0**	**3.2**	**4.6**	**7.9**

Balance sheet (INRm)

Year ended 31 Mar	2014	2015	2016	2017	2018
Share Capital	222	222	419	419	419
Reserves & Surplus	6,641	6,578	10,134	11,040	14,350
Networth	**6,863**	**6,800**	**10,553**	**11,460**	**14,769**
Debt	9,917	8,805	9,398	8,095	4,257
Minority Interest	2,529	3,231	530	566	621
Net deferred Tax liabilities	45	87	117	(1,765)	(2,329)
Capital Employed	**19,354**	**18,922**	**20,599**	**18,355**	**17,318**
Gross Fixed Assets	15,839	16,124	16,738	17,358	17,780
Accumulated Depreciation	4,116	5,845	7,547	8,726	9,933
Capital work in progress	995	410	490	549	357
Net Fixed Assets	**12,717**	**10,689**	**9,681**	**9,181**	**8,205**
Investments	21	20	15	15	14
Non Current Investments	15	15	15	15	14
Current Investments	5	4	-	-	-
Current Assets, Loans & Adv.	**9,334**	**11,196**	**14,963**	**13,842**	**14,509**
Inventory	1,755	1,091	2,092	1,612	2,946
Debtors	1,416	3,098	4,488	1,378	1,465
Cash & Bank balance	126	204	238	201	198
Loans & advances and others	6,037	6,802	8,145	10,651	9,900
Current Liabilities & Prov.	**2,718**	**2,982**	**4,060**	**4,682**	**5,410**
Liabilities	2,697	2,884	4,019	4,682	5,410
Provisions	22	98	42	-	-
Net Current Assets	**6,615**	**8,213**	**10,902**	**9,160**	**9,099**
Application of Funds	**19,354**	**18,922**	**20,599**	**18,355**	**17,318**

Per share data

Year ended 31 Mar	2014	2015	2016	2017	2018
No. of shares (m)	222	222	419	419	419
Diluted no. of shares (m)	222	222	419	419	419
BVPS (INR)	30.9	30.6	25.2	27.3	35.2
CEPS (INR)	7.5	15.5	7.4	7.6	10.9
DPS (INR)	0.2	-	0.5	-	1.0

Source: Company, Antique

Cash flow statement (INRm)

Year ended 31 Mar	2014	2015	2016	2017	2018
PBT	**76**	**1,247**	**1,453**	**1,918**	**3,471**
Depreciation & amortisation	1,616	2,237	1,715	1,412	1,207
Interest expense	872	874	834	780	525
(Inc)/Dec in working capital	(941)	(1,532)	(2,726)	(657)	58
Tax paid	-	(208)	(285)	(282)	(164)
Less: Interest/Div. Income Received	(14)	(8)	(13)	(22)	(44)
Other operating Cash Flow	6	(23)	(7)	(79)	-
CF from operating activities	**1,615**	**2,588**	**970**	**3,070**	**5,052**
Capital expenditure	(1,173)	(434)	(817)	(921)	(231)
Inc/(Dec) in investments	(15)	19	12	(4)	-
Add: Interest/Div. Income Received	14	8	13	22	44
CF from investing activities	**(1,175)**	**(407)**	**(792)**	**(903)**	**(187)**
Inc/(Dec) in debt	409	(1,231)	694	(1,467)	(3,838)
Dividend Paid	(122)	-	-	-	(503)
Others	(872)	(872)	(838)	(744)	(528)
CF from financing activities	**(585)**	**(2,103)**	**(144)**	**(2,211)**	**(4,869)**
Net cash flow	**(145)**	**78**	**34**	**(44)**	**(3)**
Opening balance	271	126	204	245	201
Closing balance	**126**	**204**	**238**	**201**	**198**

Growth indicators (%)

Year ended 31 Mar	2014	2015	2016	2017	2018
Revenue(%)	77.9	21.9	19.9	(10.9)	5.7
EBITDA(%)	115.4	70.6	(8.2)	2.2	27.7
Adj PAT(%)	(75.4)	1262.3	60.6	45.3	69.8
Adj EPS(%)	(75.4)	1262.3	60.6	45.3	69.8

Valuation (x)

Year ended 31 Mar	2014	2015	2016	2017	2018
P/E	883.0	64.8	40.3	27.8	16.4
P/BV	4.2	4.2	5.1	4.7	3.7
EV/EBITDA	25.1	14.4	15.8	15.2	11.2
EV/Sales	5.4	4.4	3.7	4.1	3.6
Dividend Yield (%)	0.2	0.0	0.4	0.0	0.8

Financial ratios

Year ended 31 Mar	2014	2015	2016	2017	2018
RoE (%)	0.9	12.2	15.4	17.7	25.2
RoCE (%)	5.0	11.1	11.6	15.0	22.7
Asset/T.O (x)	0.6	0.7	0.9	0.8	0.9
Net Debt/Equity (x)	1.4	1.3	0.9	0.7	0.3
EBIT/Interest (x)	1.1	2.4	2.7	3.8	7.7

Margins (%)

Year ended 31 Mar	2014	2015	2016	2017	2018
EBITDA Margin(%)	21.7	30.4	23.3	26.7	32.3
EBIT Margin(%)	8.0	14.8	13.3	19.0	24.8
PAT Margin(%)	0.5	5.8	7.8	12.7	20.5

Source: Company Antique